

BELARUSIAN MONTHLY ECONOMIC REVIEW



IPM RESEARCH CENTER
Research • Forecasting • Monitoring

**No. 11 (74)
November 2008**

- A meeting between the Presidents of Belarus and Russia took place.
- Search for foreign borrowings and intention to liberalize the economy.
- Widening of beneficiary taxation regime application.
- Growth in the demand for foreign currency.
- Introduction of 100% guarantees on households' deposits.

Politics: The meeting between the Presidents of Belarus and Russia took place

At the end October a working meeting between Belarusian and Russian Presidents A. Lukashenka and D. Medvedev took place. The parties discussed the issues of cooperation in military, customs spheres and coordination of foreign policy. It is likely that the parties discussed the conditions of granting intergovernmental loan for Belarus, which had been approved by the Russian side. Postponing of the date of the Supreme state council of the Union State sitting is one of the major outcomes of the meeting. It witnesses increasing contradictions in foreign policy and economic relations between the countries.

Real sector: Acceleration of GDP growth

In the 3rd quarter of 2008 GDP grew by 11.2% yoy, which is 1.1 percentage points higher than in the 2nd quarter of 2008. According to our estimations the driver of growth from the demand side has changed substantially: the contribution of households' consumption grew by 3.3 percentage points, while the contribution of fixed capital investments declined by 3.4 percentage points. The acceleration of consumption growth was determined by the salaries growth alongside with the increased propensity to consumption. Among the financial sources of investments, the share of the Belarusian banks increased thoroughly, which compensated the fall of other sources. However, the growth rate of the fixed capital investments reduced.

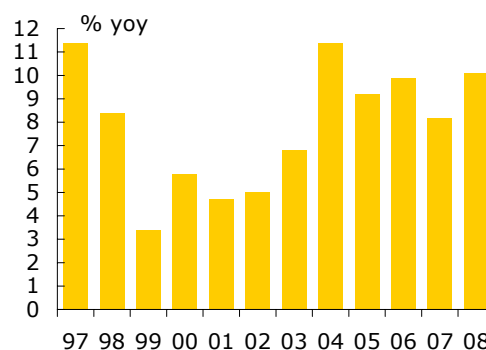
Acceleration of GDP growth in the 3rd quarter of 2008 is unlikely to become a long-term tendency. First, growth of the salaries alongside with the stimulation of the internal demand partially results in growing imports. Second, under the negative trends at the external markets due to the global financial turmoil, widening the liability side of the Belarusian banks and hence stimulation of the investments growth due to them seems unlikely. Furthermore, expansionary economic policy in current conditions might be a factor of inflation acceleration. Thus, in the 4th quarter of 2008 a deceleration of GDP growth might be expected.

Structural trends: Search for foreign borrowings and intention to liberalize the economy

Foreign borrowings. Under the conditions of the world financial crises and move of the global economy into recession, Belarusian residents began to face new challenges in the external economic activity. First, limitation of the demand at the Russian markets might result in deceleration of exports growth into this country. Second, decline of oil prices deteriorates Belarusian trade balance. Third, attracting of the planned amount of foreign investments and borrowings by the private sector seems unlikely under the new conditions. Fourth, in 2009 the hike of imported gas price seems to be inevitable. Hence, according to our estimations, the deficit of the current account of the balance of payments will amount to about 5.6% of GDP in 2008 (5.5% of GDP during the first half

Population: 9.69 m
Industry / GDP: 26.7%
Agriculture / GDP: 7.4%
Investment / GDP: 26.3%
Export destination: Russia 37%, EU 44%
Import origin: Russia 60%, EU 22%

Real GDP growth



Source: Ministry of Statistics and Analysis. Forecast for 2008: IPM Research Center.

IPM Research Center

German Economic Team
in Belarus

505 Zakharova St., Minsk 220088, Belarus
Tel./fax (+375 17) 210 0105
E-mail: bmer@research.by
Internet <http://research.by/>

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of 2008), while in 2009 it might rise up to at least 6.8% of GDP. New challenges to the Belarusian economy pushed the Standard&Poor's rating agency to change the outlook of Belarus' sovereign rating from stable to negative.

In order to finance the deficit, the government empowered their efforts to borrow from abroad. In October, Russia officially agreed to grant a loan of USD 2 bn for Belarus for 15 years with a 5-year beneficiary period on principal repayment. The loan is planned to be granted by two equal tranches: the first one will be provided in November, 2008, while the second one will be provided in the first quarter of 2009. According to information released by the Russian side, the second tranche will be provided only when Belarus has fulfilled a number of agreed steps, the range of which is not disclosed. Furthermore, Belarus applied for a loan of USD 2 bn to the International Monetary Fund. The decision of the Fund may be an important incentive for the behavior of the Belarusian economic agents in the near future. In order to facilitate to the obtaining the loan, President A.Lukashenka stated about intention "to undertake decisive steps for liberalization of the economy in Belarus".

Foreign trade: The growth of exports is provided by the growth of prices

In Jan-Aug the deficit of merchandise trade amounted to USD 3.6 bn, having grown by 44.4% yoy. The growth rate of exports amounted to 57.7% yoy mostly due to export prices increase. Imports grew by 55.8% yoy.

The Ministry of economy announced an intention to optimize the expenditure of budget funds and private funds in hard currency for imported goods down to the urgent necessity, because of the high merchandise deficit. Besides, it was recommended for the Belarusian residents to apply for maximum discounts and delay of payments from their foreign partners. It is unlikely that these measures will be effective, while the major part of the merchandise deficit (USD 3.5 bn) is formed in the trade with intermediary goods, which is essential for the volume of output. The deficit in trade with consumer goods is only USD 0.5 bn, which is mainly due to imports of cars.

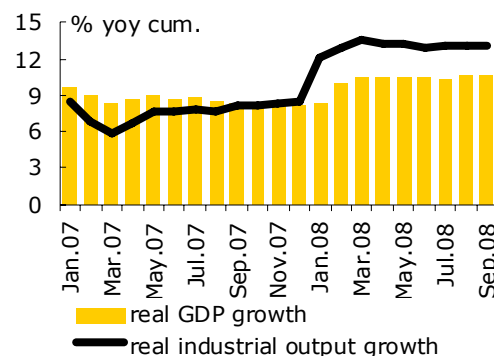
In October, the European Commission cancelled the quotas in regard to 13 items of the Belarusian textile products (about 1-2% of the entire textile supply), despite Belarus applied for abolishment of all the restrictions. The steps by the EU are unlikely to extract Belarusian exports of the textile, while the quotas are still valid for main 11 items. Moreover, negative tendencies at the western markets were emphasized by 'Belneftkhim', admitting difficulties with materials petrochemical industry. Thus the growth rate of exports to non-CIS countries might drop, while the conditions of trade might deteriorate.

Public finance: Extraction of the beneficial taxation regimes

In Jan-Aug, consolidated revenues amounted to 53.6% of GDP, which is 3.2 percentage points higher than in Jan-Aug 2007. Consolidated expenditure amounted to 47.5% of GDP (46.4% in Jan-Aug 2007). Thus the surplus amounted to 6.0% of GDP (3.9% in Jan-Aug 2007), which increased government's deposits in the banking system.

According to the President's decree the application of the beneficial taxation regimes was extracted. First, tax benefits provided in rural area are now valid all over the Belarusian territory except cities. Second, beneficiary regime for small towns is now applicable for all the towns, except those 22 with the population over 50 thousands. During first three quarters these beneficial

GDP and Industrial Output



Source: National Statistical Committee.

Contribution to Industrial Output Growth in Jan-Sep 2008

	Growth	
	%	Contribution*
Industry, total	13.1	13.1
Electric power	10.0	0.6
Fuel	11.7	2.2
Ferrous metallurgy	7.0	0.3
Chemical and petrochemical industry	8.8	1.0
Machinery and metalworking	13.6	3.1
Logging, woodworking, pulp and paper	12.8	0.4
Building materials	12.9	0.4
Light	0.9	0.0
Food	10.0	1.3
Other	28.2	3.7

Note. * - data is given in percentage points.

Source: National Statistical Committee.

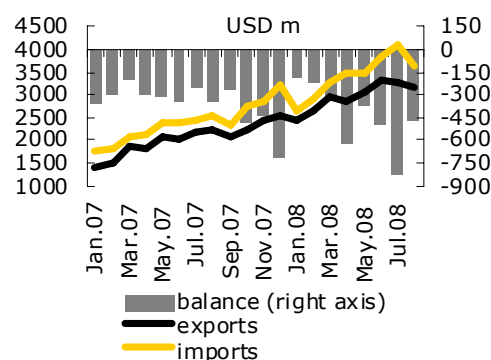
Contribution of Aggregate Demand Components to GDP Growth*

	2q	3q	Change
	2008	2008	
GDP	10.1	11.2	1.1
Final consumption	7.5	10.8	3.3
Fixed capital accumulation	9.8	6.4	-3.4
Net exports + statistical discrepancy	-8.8	-7.7	1.1

Note. * - data is given in percentage points.

Source: calculations based on the Ministry of Statistics and Analysis data. Contribution of components of aggregate demand in 3rs quarter- estimations by IPM Research Centre.

Merchandise Trade



Source: National Statistical Committee.

taxation regimes were used only by 525 and 13 taxpayers respectively, and hence it might be unlikely that extraction of these regimes will result in reduction of a high tax burden.

Monetary policy: Foreign currency demand grew

In September, net foreign assets of the monetary authorities reduced by 11.1% mom, which was determined by the sharp increase in demand for foreign currency under the conditions of the global financial distress. NBB tried to inject liquidity due to banks' refinancing in national and foreign currency within enlarging demand for hard currency and contraction of the liquidity level of the banking system. Finally base money shrank by 4.7% mom, while in the annual terms its growth rate amounted to 47.7% yoy (54.9% in August).

Despite pessimistic forecasts, in September a substantial outflow of foreign borrowings by banks was not recorded, which is peculiar for neighboring countries. However in respect to the internal business banks increased interest rates at the credit and deposit market. Due to this in September the growth of ruble time deposits by households accelerated, which is the core of the liabilities of the banks. However, legal entities preferred to deposit funds in foreign currency, having reduced their national currency deposits (by 22.4% mom). Nevertheless the overall amount of the enterprises' deposits grew as well. Hence, in September banks (mainly due to the state banks) maintained rather high growth rate of the credit to the economy, which amounted to 57.6% yoy that is almost identical to the previous month. In September, ruble money decreased by 1.1% mom, while broad money grew by 0.4% mom. In annual terms their growth rates were 48.8 and 47.6% yoy correspondingly (53.7 and 50.0% yoy in August).

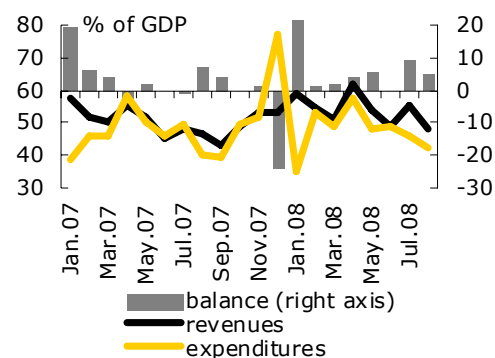
Consumer prices in September grew by 1.0% mom, mainly due to food and meals. In annual terms inflation amounted to 16.3% yoy (16.2% yoy in August). The exchange rate of the Belarusian ruble vs. US dollar was kept unchanged in September and as of September 30 was 2111 USD/BYR.

Banking sector: Introduction of 100% guarantees on households' deposits

In November Belarusian authorities decided to introduce 100% guarantees on the households' deposits in all Belarusian banks, which was stimulated by the world financial crises. The funds of the 'Agency on guarantying of the banks' deposits' are considered to be the source of the guarantees. It is planned that by the end of the year the capital of the Agency will amount to BYR 300 bn. Furthermore, the President set a goal to increase the capital of the Agency by BYR 700 bn during two years. It should be emphasized that the households' deposits in Belarusian bank exceed BYR 13 trn, which means that these guarantees will be implicit even in a medium-term perspective. However this measure might be effective for attracting new deposits in near future. Furthermore, in order to attract new deposits one more Edict that abolishes compulsory requirement for banks to turn over the information on the deposits over USD 12 thousands to the controlling state bodies was signed. This measure is directed at attracting new large depositors, those, probably Belarusians or connected with Belarusian business that placed their capitals outside the country.

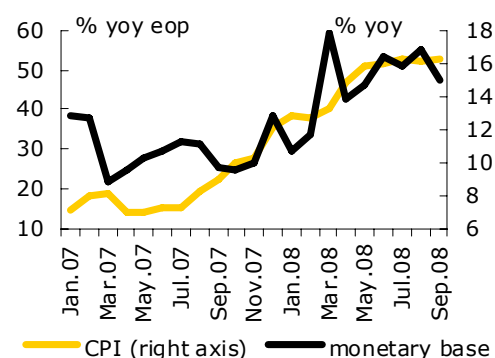
NBB decided to increase its requirements to the minimal level of the normative capital for obtaining the license for attracting households' deposits from EUR 10m up to EUR 25 m, which will come into effect as of January 1st, 2009. If all banks will succeed to increase their normative capital up to the needed level, than it will mean attracting new investments alongside with the empowering stability of the Belarusian banking system.

Consolidated Budget



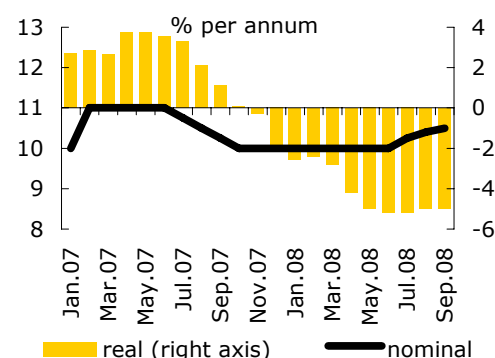
Source: calculations based on the National Statistical Committee data.

Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q4 06	Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Jul. 08	Aug. 08	Sep. 08
GDP growth	% yoy	10.8	8.4	8.9	8.4	7.3	10.9	10.1	11.2	--		
GDP growth	% yoy cum.	9.9	8.4	8.6	8.4	8.2	10.9	10.4	10.7	10.3	10.6	10.7
Industrial Production	% yoy cum.	11.3	5.9	7.7	8.2	8.5	14.7	13.0	13.1	13.1	13.1	13.1
Agricultural Production	% yoy cum.	6.1	4.4	5.2	5.6	4.1	6.8	5.4	6.9	4.4	7.4	6.9
CPI	% yoy eop	6.6	8.1	7.2	9.0	12.1	13.2	16.0	16.3	16.3	16.2	16.3
PPI	% yoy eop	8.5	11.6	13.6	16.8	17.1	13.5	16.2	18.5	17.8	18.0	18.5
Merchandise export (USD)*	% yoy	13.6	6.3	23.3	18.5	44.4	69.2	56.0	--	50.7	45.1	--
Merchandise import (USD)*	% yoy	23.5	20.8	23.7	23.8	42.4	56.5	55.3	--	68.1	42.7	--
Merchandise trade balance (NBB data)	USD m cum.	-2398	-836	-1563	-2304	-3858	-647	-2049	--	-2838	-3262	--
Current account	USD m cum.	-1512	-641	-1152	-1652	-2944	-433	-1411	--	--	--	--
Current account	% GDP cum	-4.1	-7.0	-5.8	-5.1	-6.6	-3.6	-5.5	--	--	--	--
International reserves	USD m eop	1383	1565	2344	2155	4182	4746	4618	4120	4624	4580	4120
Monetary base	% yoy eop	20	22	29	25	38	59	54	48	51	55	48
Lending rate**	% p.a. aop	12	14	11	12	12	11	10	11	11	11	12
Exchange rate (official)	USD aop	2141	2141	2145	2147	2152	2148	2136	2114	2119	2111	2112
Exchange rate (official)	EUR aop	2761	2805	2890	2948	3115	3215	3339	3183	3344	3173	3039

* Growth rates in value terms (source: Ministry of Statistics and Analysis).

** Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2001	2002	2003	2004	2005	2006	2007
Nominal GDP*	BYR trn	17.173	26.613	36.565	49.991	65.067	79.231	96.047
Nominal GDP**	USD bn	12.1	14.5	17.7	23.1	30.2	36.9	44.8
GDP Growth	% yoy	4.7	5.0	7.0	11.4	9.4	9.9	8.2
Industrial production	% yoy	5.9	4.5	7.1	15.9	10.5	11.3	8.5
Agricultural production	% yoy	1.8	0.7	6.6	12.6	1.7	6.1	4.1
CPI	% yoy aop	61.1	42.6	28.4	18.1	10.3	7.0	8.4
CPI	% yoy eop	46.1	34.8	25.4	14.4	8.0	6.6	12.1
PPI	% yoy aop	72.1	41.4	37.5	24.1	12.1	8.3	16.2
PPI	% yoy eop	40.9	42.7	28.1	18.8	10.0	8.5	17.1
Exports (gs, USD)	% yoy	10.9	9.8	24.4	35.7	15.8	21.8	24.3
Imports (gs, USD)	% yoy	11.1	9.0	25.1	40.3	3.0	33.0	27.9
Current account	USD m	-394	-311	-424	-1206	510	-1512	-2944
Current account	% GDP	-3.2	-2.1	-2.4	-5.2	1.7	-4.1	-6.6
FDI (net)	USD m	96	453	170	163	303	351	1768.9
International reserves	USD m	347	457	474	770	1297	1383	4182
Fiscal balance	% GDP	-1.6	-0.2	-1.6	0.0	-0.6	2.2	0.6
Domestic public debt	% GDP eop	6.1	5.4	5.5	5.7	5.8	6.5	6.4
External debt (total)	% GDP eop	24.8	27.0	23.7	21.4	17.9	18.6	28.4
Monetary base	% yoy eop	225	32	50	42	74	20	38
Exchange rate (official)*	USD aop	1394	1784	2075	2160	2154	2145	2146
Exchange rate (official)*	USD eop	1580	1920	2156	2170	2152	2140	2150
Spread***	% aop	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Spread***	% eop	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	1239	1690	2353	2684	2681	2692	2937
Exchange rate (official)*	EUR eop	1392	1989	2695	2956	2550	2817	3167

* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

** For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

*** Spread between the black market and official (NBB) exchange rates (source: IPM Research Center).

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, IPM Research Center.

Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date